

City of London

2015 TAX POLICY

Definition - Tax Ratios



- Tax ratios are required to be set by council by by-law each year (used to be legislated to be complete by April 30 each year!)
- The residential tax ratio is always 1
- Tax ratios describe the structure of a municipal tax system (i.e. how heavily each property class is taxed relative to the residential class)
- Any changes to the ratio of one class affect the other classes...zero sum...just reallocates the municipal portion of the tax pie
- Tax ratios do not apply to the education rate

City of London Tax Ratios



| | 2014 Tax Ratio | Recommended 2015 Tax Ratio | Provincial Threshold (O.Reg. 73/03) |
|-------------------|---------------------------|---------------------------------------|--|
| Commercial | 1.980000 | 1.950000 | 1.98 |
| Industrial | 2.220000 | 1.950000 | 2.63 |
| Multi-Residential | 1.980000 | 1.950000 | 2.74 |
| Residential | 1.000000 | 1.000000 | N/A |
| Farmland | 0.204200 | 0.187600 | N/A |
| Pipe Lines | 1.713000 | 1.713000 | N/A |

CSC - Agenda item 2 Page 4

The impact of these changes on the various classes is shown in the table on CSC Agenda item 2 page 10.

Municipal Property Tax Context

Property Tax: Who Does What



Assessment Policy:
How Land is Valued

Tax Policy:
How burdens are calculated and distributed over the tax base

Ontario

ARB

Assessment Review Board
(appeals)

Municipality

(local policy)

MPAC

Municipal Property Assessment Corporation
(assessments)

Taxpayer

Two Parts to the Property Tax Bill



- Set by Province
- Uniform provincial residential, multi-residential, and farmland classes
- Commercial and industrial rates vary by municipality

Education
Portion

Municipal
Portion

Property Tax Bill

How the Municipal Portion is Calculated...



- Varies by class
- Policy “goal posts” set by Ontario
- Council sets local policy within those “goal posts”

Tax Rate

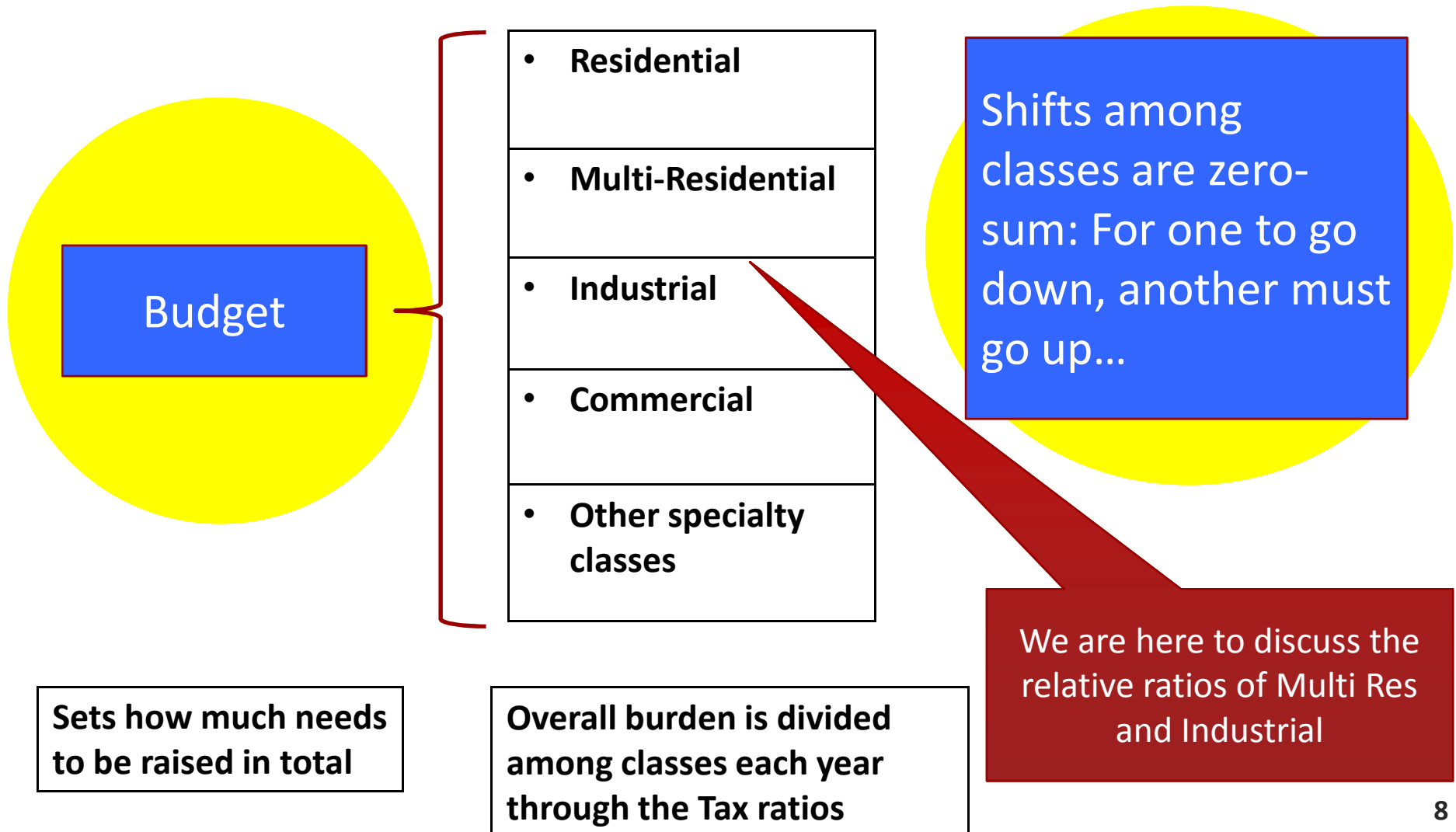
Multiplied by

- Policy set by Ontario
- Assessments undertaken by MPAC
- Taxpayer may appeal to ARB

Assessed Value

Municipal Portion
of Property Tax Bill

Council Sets The Overall Budget



Municipal Property Tax – Some Definitions

Definitions - Assessment



- This refers to the taxable value of property determined by the MPAC and provided to the municipality
- The determination of value and determination of property class is governed by the Assessment Act
- The taxable value changes every year as the old base year is phased in to the new base year (2008 → 2012)

Different valuation methods:

- ✓ Residential properties are valued on a market sale basis
- ✓ Commercial & multi-residential properties are valued based the value of rental income streams (cash flow) basis
- ✓ Industrial properties are valued on a construction cost basis

Definitions - Tax Ratios



- Tax ratios are required to be set by council by by-law each year (used to be legislated to be complete by April 30 each year!)
- The residential tax ratio is always 1
- Tax ratios describe the structure of a municipal tax system (i.e. how heavily each property class is taxed relative to the residential class)
- Any changes to the ratio of one class affect the other classes...zero sum...just reallocates the municipal portion of the tax pie
- Tax ratios do not apply to the education rate

Definitions - Tax policy



- Annual setting of tax ratios and tax rates determines how the “tax pie” is divided between the property classes
- A tax policy has long term consequences:
 - ❖ Once a ratio is reduced it can’t automatically be increased
 - ❖ can be positive or negative
 - ❖ may impact the achievement of Council’s strategies and goals

2015 Tax Policy Recommendations

Guiding Principles



- Equity...similarly valued properties are treated the same, no bias built in to favour one class over another
- Economic Development...competitive/comparable with other major Centres
- Transparency...taxation system is understandable to taxpayers
- Administrative Efficiency...simple, cost effective
A good example of this is the use of capping which can be complex to administer and which 2015 tax policy will reduce

2015 Tax Policy Recommendations

SUMMARY

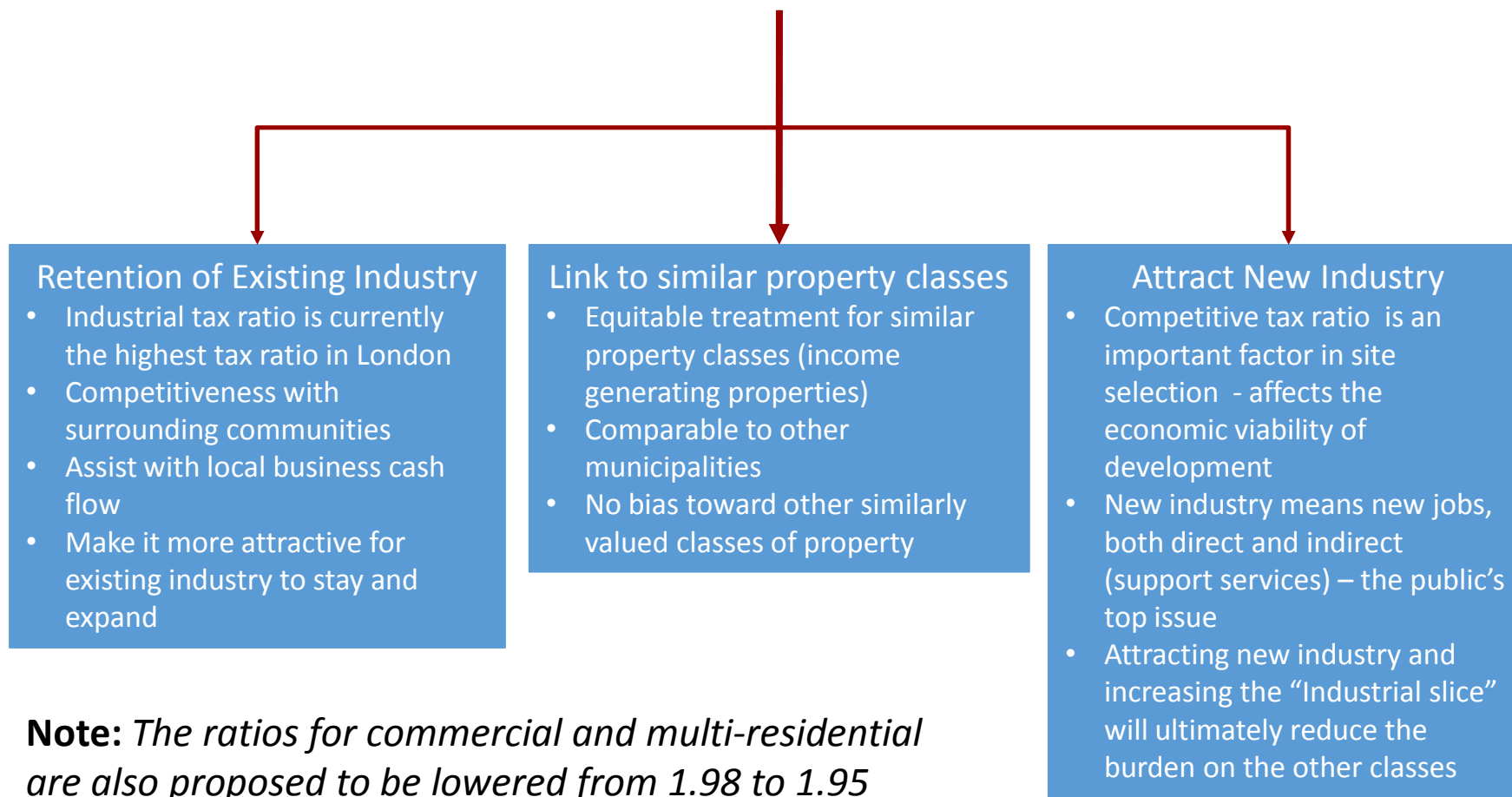


- Establish a single ratio for 3 main classes that are valued on a similar basis (Industrial, Commercial and Multi-residential), while maintaining the total property tax increase in residential class at 2.5%
- Adjust the farmland ratio so that the increase in municipal levy is the same as total levy increase
- Adopt same formulae for capping and clawing back properties in the commercial, industrial, and multi-residential property classes as was utilized in 2014
- Adopt available options to prevent properties from re-entering the capping and claw-back system for 2015 and beyond

Why the recommendation?



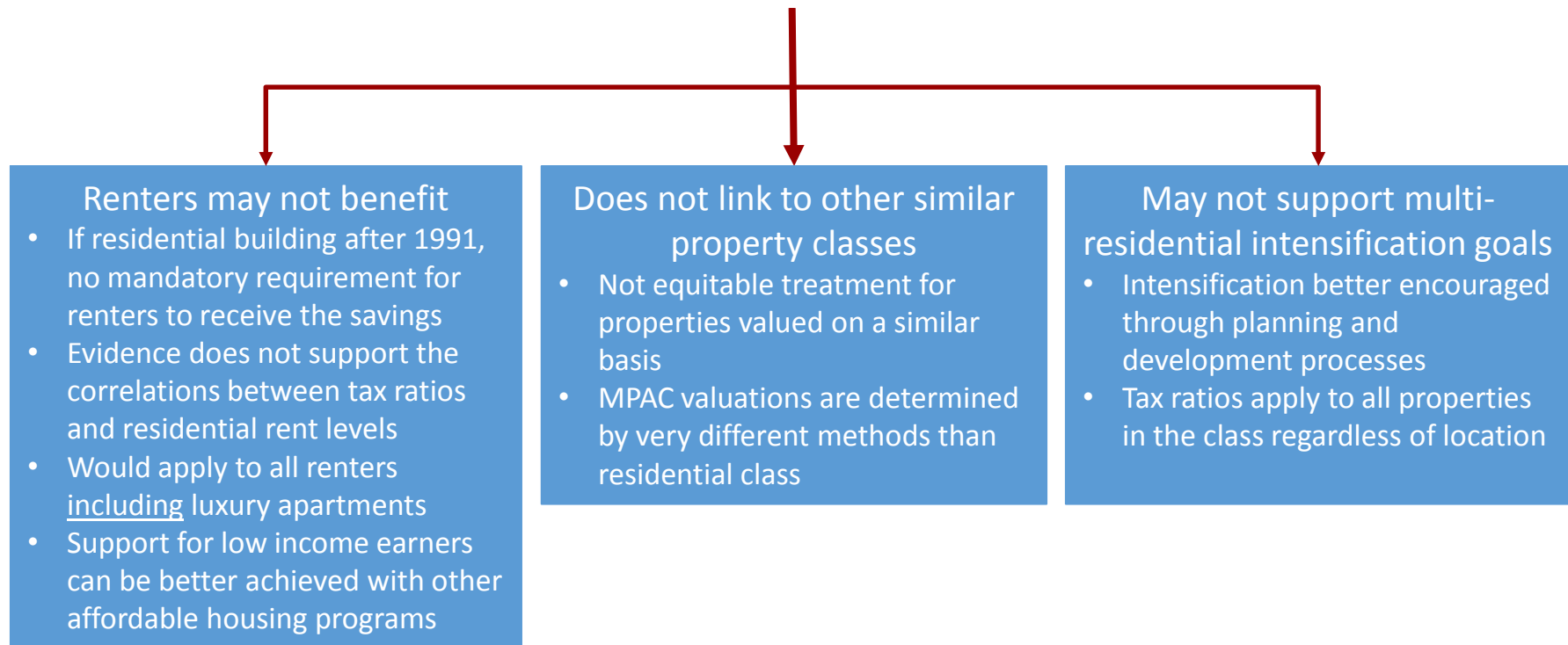
Lower the Industrial Tax Ratio from 2.22 to 1.95



Why not the alternative proposal?



Why Administration does not recommend lowering the Multi-residential Tax Ratio below 1.95



Excerpt from City of Hamilton Report Feb 2009



No documented evidence that a reduced multi-residential tax ratio equates to lower rents:

- Municipalities who have reduced their multi-residential tax ratio have seen rent increases at the same rate or higher than those communities with minimal or no reduction to their multi-residential tax ratio (rents are market driven).
- Although Hamilton has a high multi-residential tax ratio, the average rent for a two-bedroom apartment in Hamilton (CMA) continues to be among the lowest in Ontario, with average rent increases being one of the lowest (below the rent guideline).
- Ottawa lowered multi-residential ratios from 1998-2008 by 25% and still saw a 32% increase in rents

Impact of Tax Ratio Changes



CSC – Agenda Item 2, Page 10 summarizes and isolates the impacts of the various decision points on each property class.

| A Property Class | B City Portion of Tax Bill in 2014 | C City Levy Increase | D=BxC City Levy Increase on Total Bill | E Reassessment and Education Tax Changes | F Tax Ratio Changes | G=D+E+F 2015 <u>Average</u> Change in Total Property Taxes |
|---------------------|---|----------------------------|---|---|---------------------------|---|
| Residential | 85.16% | 2.49% | 2.12% | (0.26%) | 0.64% | 2.51% |
| Farm | 82.42% | 2.49% | 2.05% | 7.94% | (6.80%) | 3.19% |
| Multi-Residential | 91.91% | 2.49% | 2.29% | 3.78% | (0.78%) | 5.29% |
| Commercial | 61.24% | 2.49% | 1.53% | (1.01%) | (0.50)% | 0.02% |
| Industrial | 62.37% | 2.49% | 1.55% | (1.20%) | (7.10%) | (6.74%) |
| Pipelines | 56.12% | 2.49% | 1.40% | (0.65%) | 0.42% | 1.16% |

2015 Tax Policy Recommendations

SUMMARY



- Establish a single ratio for 3 main classes that are valued on a similar basis (Industrial, Commercial and Multi-residential), while maintaining the total property tax increase in residential class at 2.5%
- Adjust the farmland ratio so that the increase in municipal levy is the same as total levy increase
- Adopt same formulae for capping and clawing back properties in the commercial, industrial, and multi-residential property classes as was utilized in 2014
- Adopt available options to prevent properties from re-entering the capping and claw-back system for 2015 and beyond

Presentation Overview



1. Overview of the municipal property tax context
 - a) Stakeholders
 - b) Process
 - c) Definitions
 - d) Tax ratios

2. Recommendations re tax policy

Stakeholders



Provincial Government

- Establish broad systemic policies and principles
- Prescribe administrative details for the assessment & taxation of property

MPAC Municipal Property Assessment Corporation

- Establish specific assessment practices and standards
- Assign, update and defend property specific assessment values (CVA)

Municipal Council

- Determine local revenue requirements
- Set local tax policy within allowable parameters
- Levy and collect municipal and provincial education property taxes

Taxpayer

- Supply the property tax revenue
- Systemic feedback in reaction to general and specific practices and/or outcomes
- Drive market values

ARB Assessment Review Board

- Adjudicates disputes and conflicts within the assessment and property tax system
- Plays an interpretive role (non-binding)

Property Tax...

How much & who pays?



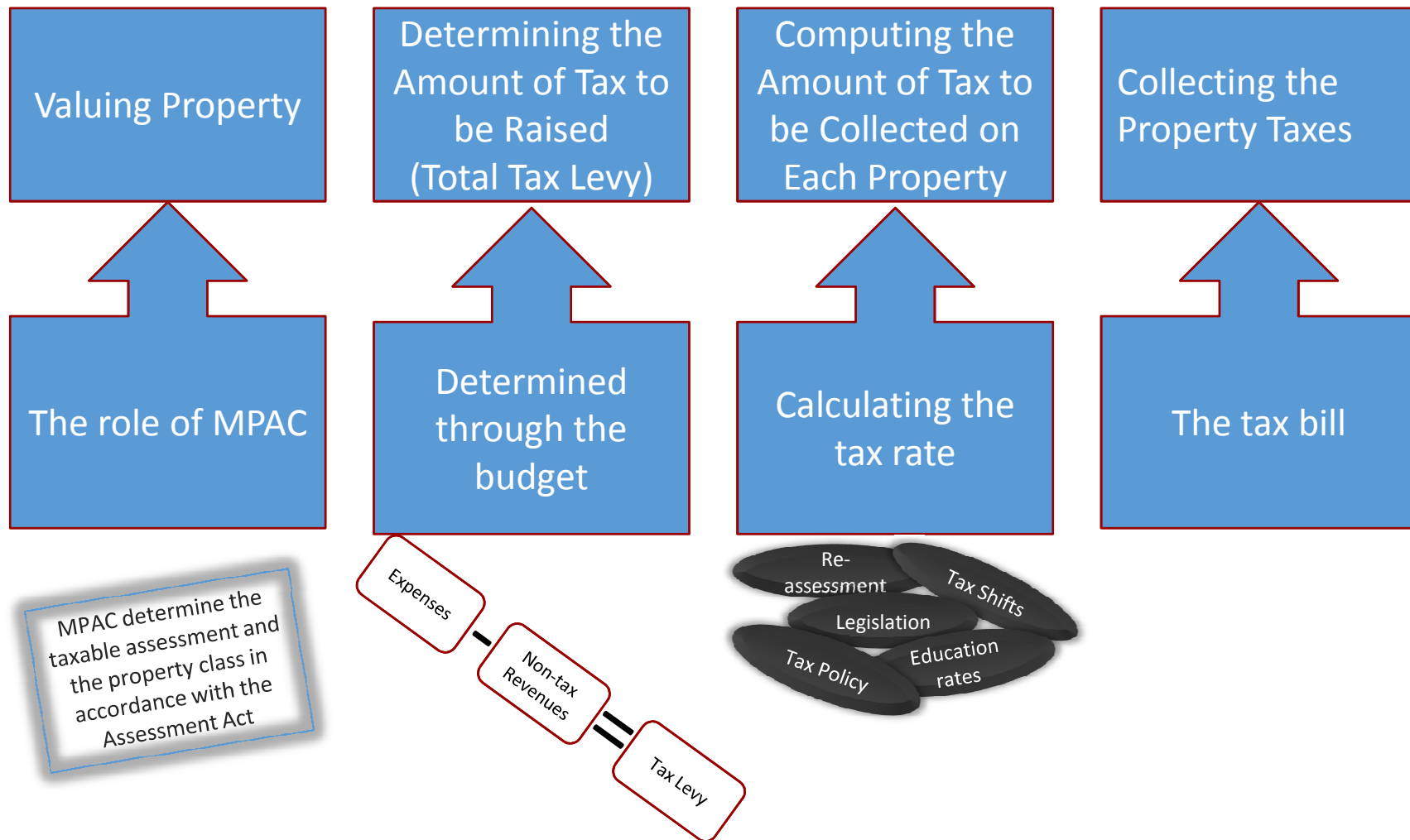
The Budget – determines how big the pie is going to be!

- The budget determines how much property tax needs to be raised to meet the needs of the community. This is often reflected by an average levy increase percentage change across all tax payers

Tax Policy and Tax rates – determines how much of the tax pie each class and individual tax payer is responsible for.

- The amount of tax paid by an individual tax payer is a complex calculation that factors in re-assessment, shifts between classes, legislated requirements and changes in tax levy requirements resulting from the budget set by Council and education rates set by the Province.

The Property Tax Process



Definitions - Assessment Growth



- Refers to increase in taxable value of property (assessment) in the municipality due to new construction
- It does not refer to increases in the value of taxable assessment due only to increases in the value of existing properties

Definitions - Reassessment



- This refers to the revaluation of all existing properties in Ontario to a new common base year every four years
- The last reassessment year was 2013 based on market values of January 1, 2012 and will be phased over 4 years ending 2016
- This means that every year there is a reassessment component to the tax change that each property experiences
- Each residential tax bill is required to separately show the tax change due to municipal levy increase and reassessment

Definitions - Tax Shifts



- This refers to movements in how much of the “tax pie” each property class or type (Residential, Multi-residential, Commercial or Industrial) is responsible for
- If one property class (type) either increases or decreases in value compared to another property type, it results in shifting the property tax burden from or to other property tax classes
- If one property class receives a larger tax break than other property classes, it results shifting the property tax burden to the other property classes

Definitions - Education Tax Rates

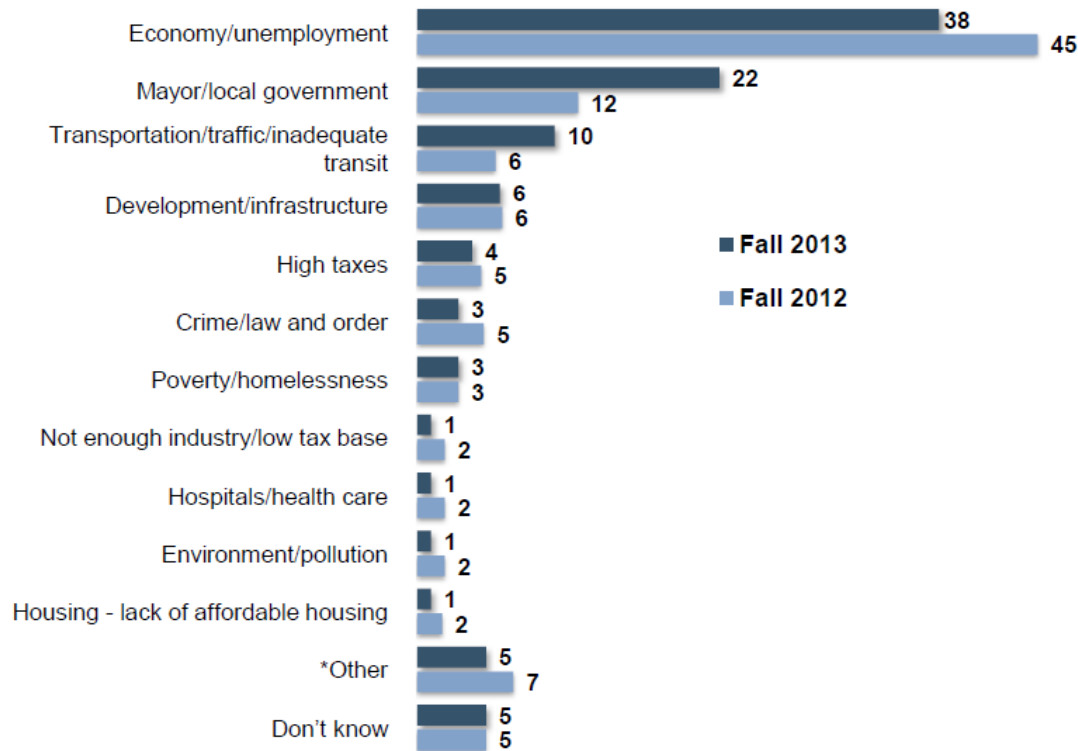


- These rates are set by the Province
- There are uniform tax rates for the entire Province for the residential, multi-residential, and farmland classes
- Commercial and industrial rates vary by municipality but the Province is trying to move to uniform rates

Environics Survey 2013



Most important local issue 2012 - 2013



Q1 What, in your opinion, is the single most important local problem facing London today?
*Other contains a number of responses of one percent or less each

Total Property Taxes



➤ Total Property Taxes including Education - Recommendations in 2015 Report

| | Tax Ratio | Tax Rate 2015 | % Above (below) Residential Rate |
|-------------------|------------------|----------------------|---|
| Commercial | 1.950000 | 3.714835% | 172% |
| Industrial | 1.950000 | 3.814835% | 179% |
| Multi-Residential | 1.950000 | 2.479835% | 81% |
| Residential | 1.000000 | 1.366710% | 0% |
| Farmland | 0.187600 | 0.268563% | (80%) |
| Pipe Lines | 1.713000 | 3.537139% | 159% |

Assessment Composition



| Municipality with > 100,000 Population in 2014 BMA Study | Residential | Multi-residential | Commercial | Industrial | Pipelines, farmlands and forests | TOTAL |
|--|-------------|-------------------|------------|------------|----------------------------------|--------|
| Toronto | 73.7% | 6.4% | 18.2% | 1.7% | 0.1% | 100.0% |
| Windsor | 73.5% | 3.8% | 18.3% | 3.8% | 0.6% | 99.4% |
| Thunder Bay | 77.8% | 3.8% | 15.7% | 2.3% | 0.4% | 99.6% |
| Greater Sudbury | 79.6% | 4.3% | 12.5% | 3.1% | 0.5% | 99.5% |
| Kingston | 75.6% | 6.3% | 16.3% | 1.1% | 0.6% | 99.3% |
| Cambridge | 75.1% | 4.1% | 14.6% | 5.8% | 0.4% | 99.6% |
| Hamilton | 80.5% | 4.8% | 10.6% | 1.9% | 2.1% | 97.8% |
| Guelph | 79.1% | 4.5% | 11.6% | 4.6% | 0.2% | 99.8% |
| Waterloo | 78.7% | 5.0% | 13.5% | 2.6% | 0.2% | 99.8% |
| Ottawa | 77.3% | 6.1% | 14.9% | 0.9% | 0.8% | 99.2% |
| Kitchener | 78.9% | 6.8% | 12.3% | 1.8% | 0.1% | 99.8% |
| London | 80.5% | 5.1% | 12.2% | 1.4% | 0.8% | 99.2% |
| Oshawa | 78.0% | 4.8% | 14.1% | 2.4% | 0.7% | 99.3% |
| St. Catharines | 79.3% | 5.0% | 13.3% | 1.5% | 0.9% | 99.1% |
| Burlington | 78.7% | 3.3% | 14.3% | 3.1% | 0.6% | 99.4% |
| Mississauga | 71.6% | 3.1% | 20.8% | 4.3% | 0.1% | 99.8% |
| Oakville | 83.9% | 2.1% | 11.6% | 2.2% | 0.2% | 99.8% |
| Milton | 80.6% | 0.9% | 12.7% | 3.5% | 2.3% | 97.7% |
| Whitby | 84.2% | 2.0% | 11.2% | 1.9% | 0.7% | 99.3% |
| Barrie | 77.0% | 3.2% | 17.2% | 2.2% | 0.4% | 99.6% |
| Ajax | 86.7% | 1.6% | 9.7% | 1.7% | 0.4% | 99.7% |
| Brampton | 78.9% | 2.0% | 14.6% | 4.1% | 0.5% | 99.6% |
| Vaughan | 76.2% | 0.4% | 16.5% | 6.6% | 0.3% | 99.7% |
| Markham | 81.7% | 1.2% | 14.6% | 2.1% | 0.4% | 99.6% |
| Richmond Hill | 86.5% | 1.5% | 10.2% | 1.6% | 0.2% | 99.8% |
| Average | | 3.7% | | 2.7% | | |
| Median | | 3.8% | | 2.2% | | |
| Maximum | | 6.8% | | 6.6% | | |
| Minimum | | 0.4% | | 0.9% | | |
| London Compared to Median | | 34.2% | | -36.4% | | |
| London Compared to Average | | 38.4% | | -48.7% | | |